

# Capital Outlay – Update for the 2020 Session

Annual Meeting  
November 22, 2019

# Capital Outlay – 2020 Preview

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- Current authorized and unissued tax-supported debt is \$5.4 billion.
  - Over the last 10 years, there have been \$10.5 billion in authorizations and \$11.0 billion in issuances.
  - Projects that have already been through detailed planning and are ready to proceed to construction have a value of about \$1.5 billion.
- Project costs are increasing based on escalating material prices.
- Funding will be needed to supplement existing project pools as well as equipment for projects that will be completed in the next 18 months.
- Requests for new general fund supported debt from state agencies total over \$6.5 billion for the biennium.
- There are other high priority needs in maintenance reserve and for aging state facilities.

# Topics:

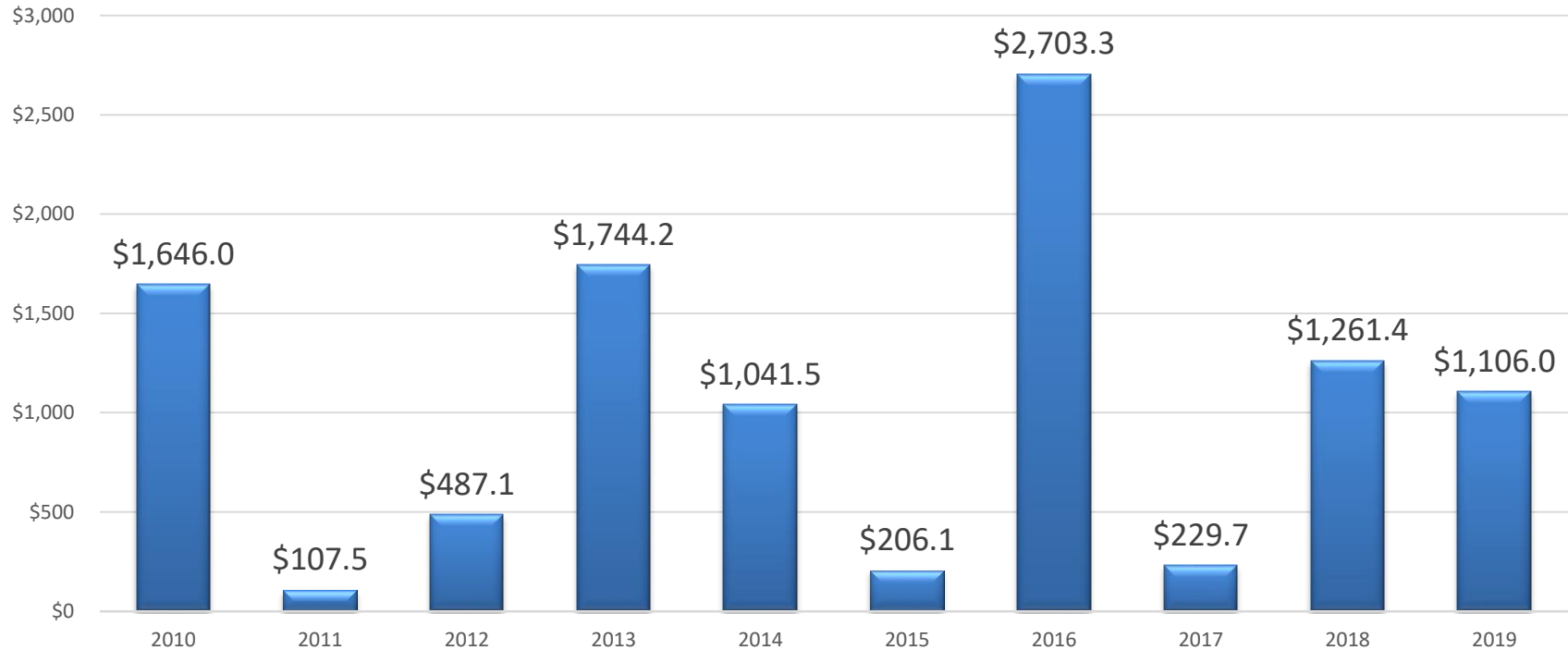
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# Debt Overview

# Tax-Supported Debt Authorizations

## FY 2010 – 2019 (in millions)



**\$10.5 Billion in authorizations, \$11.0 Billion in issuances over the last 10 years.**

Source: Draft Outstanding Authorized and Issued Tax-Supported Debt Fiscal Years 2010-2019, October 30, 2019, Virginia Department of Treasury.

# Framework for Commonwealth Debt

## Constitutional Basis - Article X

Type	Purpose	G.A. Action	Referendum	Security
9(a)	Emergencies, Deficits, Redeem Obligations	General Authorization	No	GO
9(b)	Capital Projects <ul style="list-style-type: none"> <li>Requires a simple majority vote,</li> <li>Approved by the voters,</li> <li>AAA; lowest cost of borrowing, and</li> <li>Projects specified for a single purpose.</li> </ul>	Project Authorization	Yes	GO
9(c)	Revenue Producing Capital Projects <ul style="list-style-type: none"> <li>Backed by GO pledge and</li> <li>Not included in the debt capacity model.</li> </ul>	2/3 Majority Project Authorization	No	Revs+GO
9(d)	Anything Else <ul style="list-style-type: none"> <li>Appropriation backed debt (tax-supported) or</li> <li>9(d) HE debt (not tax-supported).</li> </ul>	General Authorization	No	Revs/App

Source: Virginia Treasurer Presentations to SFC. Note: GO = General Obligation, Revs = Revenue, and App = Appropriations.

# Debt Capacity Model – Measures and Inputs

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- In 1991, the Debt Capacity Advisory Committee (DCAC) adopted the measure that debt service on tax-supported debt should be less than 5% of blended revenues.
  - **Recommendation is currently expressed in terms of a ten-year average.**
  - **Blended Revenues include:**
    - General Fund Revenues,
    - General Fund Transfers – ABC, Sales Tax, Recurring Transfers,
    - VA Health Care Fund, and
    - Transportation Trust Fund (“TTF”).
- Tax-supported debt includes:
  - **Debt for which debt service payments are made or pledged to be made from funds derived from tax revenues.**
    - Certain bonded debt, capital leases, installment purchases, etc.,
    - 9(b) General Obligation, and
    - 9(d) VCBA (21<sup>st</sup> Century/Equipment), VPBA, VPA, and CTB debt (secured TTF).

Source: Virginia Treasurer Presentations to SFC. Note: VCBA = Virginia Commonwealth Building Authority, VPBA = Virginia Public Building Authority, VPA = Virginia Port Authority, CTB = Commonwealth Transportation Board, and TTF = Transportation Trust Fund.

# Debt Capacity Model – Measure and Inputs (Cont.)

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- Tax-supported debt does not include:
  - 9(c) GO since payments are to be paid by project revenues,
  - Moral Obligation issued by Virginia Resources Authority,
  - Sum Sufficient Appropriation issued by Virginia Public School Authority, and
  - Grant Anticipation Revenue Vehicles (“GARVEES”).
- Scheduled debt service on outstanding tax-supported debt is included in model.
- Debt service on authorized but unissued debt included in model is based on:
  - DPB draw schedules and information from agencies,
  - Long-term and short-term interest rates, and
  - Level debt service payments (except 9(b) GO which is amortized on a level principal basis).
- Factors Affecting Debt Capacity
  - Revisions to revenue estimates,
  - Additional tax-supported debt authorized, and
  - Changes to issuance assumptions (actual financing dates/terms vs. estimated, revisions to project spending schedules, & changes in interest rates).

Source: Virginia Treasurer Presentations to SFC.



# Debt Capacity Update (unofficial)

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- The update (information purposes only) shows that **up to an additional \$579.95 million** could prudently be authorized and issued over each year of the 10 year horizon of the model.
- The model is updated for:
  - New tax-supported debt authorized in 2019 General Assembly session,
  - Actual debt service on debt issued through June 30, 2018, and
  - General Fund revenue through December 2018 forecast (as adjusted to exclude the temporary Tax Cuts and Jobs Act revenues and Earned Income Tax proposal).
- The DCAC is scheduled to meet again on December 18, 2019.

Source: Virginia Department of Treasury.

# Six-Year Planning Process and the Six-Year Project Advisory Committee (Six-PAC)

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- In 2008, the requirement for a six-year capital outlay plan was codified.
  - The goals of this plan are:
    - 1) To provide for a more business-like approach to capital budgeting, and
    - 2) To produce a more consistent, reliable, and predictable capital outlay program.
  - Project costs are expressed in ranges for budgeting purposes, since precise costs are not known at this stage (i.e. \$10 to \$25 million, \$25 to \$50 million, \$75 to \$100 million).
  - Multi-phased process appears to be leading to more efficient management of resources.
- The “Six-PAC” reviews, analyzes and recommends projects to the Governor for inclusion in the six-year plan (Sec. of Finance, and the Directors of DPB, DGS, SCHEV, HAC and SFC).
  - The “Six-PAC” was also tasked by the 2013 General Assembly with managing the cash-flows of a \$1.1 billion project pool.
    - Budget language requires that no more than \$250 million in bonds be issued each year, beginning with FY 2014, until this pool is completed.
- A letter from the Six-PAC will express prioritizing previously planned projects and other high priority needs related to life, health, safety, etc.

# 2019 Session Summary

# Chapter 854, 2019 Session Capital Funding

## Capital Outlay Funding (\$ in millions)

<b>Fund Type</b>	<b>Chapter 2 - 2018-20 (2018 Session)</b>	<b>Amend. 2018-20 (2019 Session)</b>	<b>Chapter 854 2018-20 (Total)</b>
General Fund	\$0.1	\$4.6	\$4.7
VPBA/VCBA Tax-Supported Bonds	1,001.9	1,088.5	2,090.4
9(c) Revenue Bonds	21.0	17.5	38.5
9(d) Revenue Bonds	185.2	42.1	227.3
<u>Nongeneral Fund Cash</u>	<u>239.3</u>	<u>202.8</u>	<u>442.1</u>
<b>Total</b>	<b>\$1,447.5</b>	<b>\$1,355.5</b>	<b>\$2,802.9</b>

# 2020 Session Outlook

# Capital Outlay Budget Requests for 2020-22 are Significant

Secretarial Area	Total Project Requests (\$ in millions)*	General Fund Portion (\$ in millions)*
Education	\$6,108.9	\$4,980.1
Natural Resources	815.0	453.5
Public Safety & Homeland Sec.	485.8	460.3
Administration	449.2	449.2
Transportation	283.6	0
Health & Human Resources	221.0	147.5
Veterans & Defense Affairs	156.4	9.0
Commerce and Trade	27.1	27.1
Independent Agencies	21.6	0
Agriculture & Forestry	8.8	0
<b>Total</b>	<b>\$8,577.4</b>	<b>\$6,526.7</b>

\* As submitted to the Department of Planning and Budget on October 20, 2019. Requests include some projects that have received funding for planning.

# Higher Education Requests are Substantial – SCHEV Project Assessment and Prioritization is Useful

**Priority 1** – Projects that meet the Council’s Fixed Asset Guidelines or are considered critical to supporting the capital outlay needs of Virginia’s system of higher education. Also included in this group are projects that address ADA, security issues and infrastructure improvements for energy efficiency and mechanical, electrical and plumbing (MEP) systems.

**Priority 2** – Projects that do not meet the space/productivity criteria in the Council’s Guidelines but have some compelling programmatic justification.

**Priority 3** – Projects that do not meet the space/productivity criteria in the Council’s Guidelines and have less immediate space/programmatic need.

**Priority 4** – These are non-guideline requests. Assessment is deferred.

**SCHEV Deferred Assessment for New Construction Projects** – New construction projects ranked highly by an institution, included in their six-year plan, and where assessment is deferred.

# Summary of SCHEV Capital Outlay Project Recommendations

## Total Requested Funding by Fund and Priority Group (\$ in millions)

Priority Group	GF	NGF	9(c)	9(d)	Total Requests	Total Projects
Priority 1	\$824.8	\$1.8	\$0	\$0	\$826.5	31
<b><i>Included in Resolution</i></b>	<b><i>\$824.8</i></b>	<b><i>\$1.8</i></b>	<b><i>0</i></b>	<b><i>\$0</i></b>	<b><i>\$826.5</i></b>	<b><i>31</i></b>
Appr. Acts Projects (previously planned)	783.1	0	0	0.5	783.6	19
Priority 2	918.0	1.8	0	21.6	941.3	31
Priority 3	14.4	0	0	0	14.4	1
Priority 4	0	0	0	0	0	2
Def. assess. new const.	2,185.1	166.0	21.6	74.7	2,447.5	39
<b><i>Not in Resolution</i></b>	<b><i>\$3,900.6</i></b>	<b><i>\$167.8</i></b>	<b><i>21.6</i></b>	<b><i>\$96.8</i></b>	<b><i>\$4,186.8</i></b>	<b><i>92</i></b>
<b>Total Requests</b>	<b>\$4,725.4</b>	<b>\$169.5</b>	<b>\$21.6</b>	<b>\$96.8</b>	<b>\$5,013.3</b>	<b>123</b>



# Debt and Capital Outlay – 2020 Session Outlook

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## Requests are expanding:

- Aging prison/mental health facilities will require additional resources.
- The number and cost of maintenance reserve projects is increasing.
- Costs are escalating for existing projects.
- Life, health, and safety requests are continuing to grow.
- Recent changes to how transportation programs are funded may lead to discussions about the debt capacity model.
- Economic development priorities are also generating requests (i.e. Tech Talent).

## Agency requests for new projects:

- Total over \$6.5 billion (GF-supported portion) for the 2020 Session.
  - Multiple projects that cost more than \$100 million and some duplication in requests.
- The bond package in 2016 had 21 detailed planning projects (1/3 of the projects have already been funded for construction).
- Additional detailed planning projects have been approved between the 2017-2019 Sessions with costs totaling more than \$800 million.

# Appendix

# 2019 Session

## Capital Projects – Tech Talent

# VT Innovation Campus and Main Campus Projects (2019 Session)



- The Tech Talent program contains planned capital outlay projects including a new academic facility at the Innovation Campus in Northern Virginia and a Data and Decision Science Building on the Main Campus.
- The Innovation Campus project was funded at \$275.0 million – including \$168.0 million in GF bond proceeds.
- The Data and Decision Science Building was funded at \$79.0 million – including \$69.0 million in GF bond proceeds.

Source: VT Staff, October 28, 2019, Virginia Tech.

# GMU – Arlington Demolition Approved and IDIA Project Funding Requested for 2020

- George Mason University was authorized to demolish the Arlington Original Building with \$7.5 million provided by the University; considered part of its share of the total new project costs.
- The Mason Institute for Digital Innovation (IDIA) will be a new mixed-use structure and serve as a nexus for programs associated with Mason's new School of Computing and experiential learning associated with digital innovation.
- GMU has plans for a P3 concept to accomplish their goals for this project.
- According to GMU, the IDIA will be a think tank and incubator to serve the digital economy with space for industry, public and regional ecosystem partners and supportive commercial services, all of which will create an atmosphere of collaboration and innovation.

Source: *GMU Staff*, November 1, 2019, George Mason University.



# 2020 Session Capital Request Examples

# Higher Education Examples

# JMU – Carrier Library Renovation and Expansion

- The original building was built in 1938 and has never been renovated. Upgrades related to life safety, circulation, and accessibility standards are needed.
- Additions were completed in 1969, 1980, and 1991. There have been no comprehensive renovations over the last 80 years.
- James Madison University (JMU) states that the ongoing failures of the antiquated life safety systems create disruptions of critical services.
- Renovation will provide fire sprinkler systems, compliant fire alarm, new electrical system, new HVAC, and ADA compliance.
- Expansion will add 56,400 GSF of additional space.

Source: JMU Staff, October 28, 2019.





# Radford University – Center for Adaptive Innovation and Creativity



- The Center for Adaptive Innovation and Creativity (CAIC) will replace two existing facilities which are inadequate from a safety and accessibility standpoint.
- Radford is requesting that this 178,000 square foot project (roughly 56,000 of new square footage) move to construction, detailed planning was completed using nongeneral funds.



Source: RU Staff, October 28, 2019, Radford University.

# VT – Undergraduate Science Laboratory



- Part of the agency decision package requests under capital outlay for the 2020 Session.
- A science instructional facility that is a companion to the Undergraduate Classroom Building to address enrollment growth, support innovative instructional approaches of the 21st Century, and meet STEM-H instruction needs, including the core curriculum of all Tech Talent pipeline students. VT states that they need a larger inventory of modern instructional laboratories to support prior and current enrollment growth in the STEM-H disciplines.

Source: VT Staff, October 28, 2019, Virginia Tech.

# Public Safety Examples

# Powhatan Infirmary Replacement

- 140 infirmary beds currently.
- 192 offenders on the waitlist.
- Increase in jail transfers.
- Issues with infection control.
- Demolition of closed segregation building.
- Project would add 48,000 square feet and 112 new infirmary beds (total of 252 beds).
- Expansion of on-site medical care.





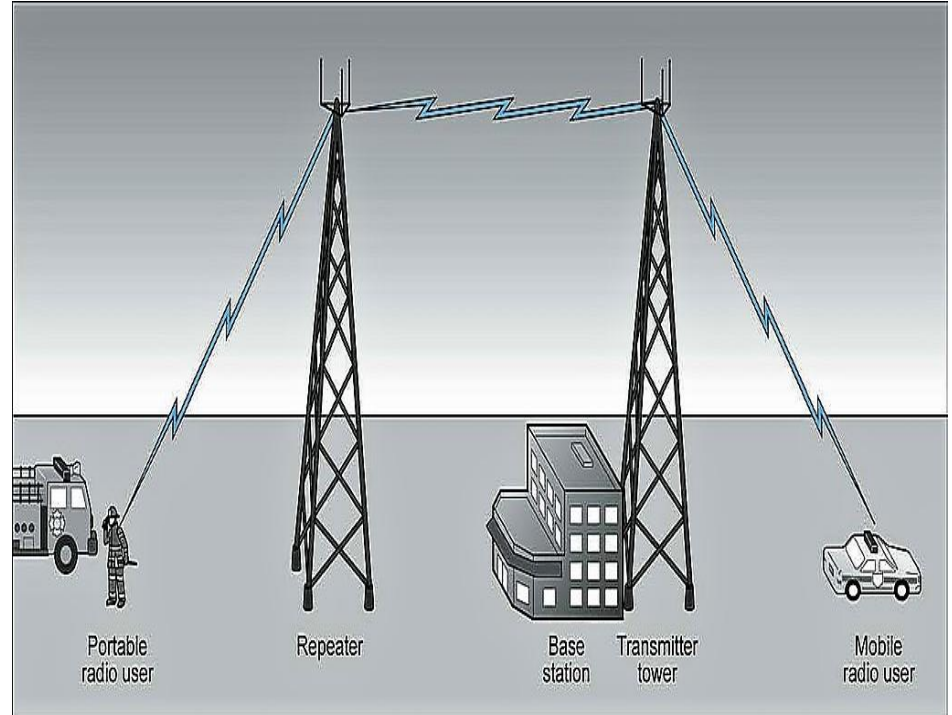
# Deerfield Correctional Center Expansion



- 18 infirmary and 39 assisted living beds currently.
- Overflow of 5 offenders per month at Southampton Memorial - annual cost of \$2.4 million GF.
- Growing geriatric population.
- New facility would contain 115 nursing home/long-term care beds, a secure dementia unit, diagnostic and procedure rooms, and physical therapy space.

# Virginia State Police – STARS Request

- Statewide Agencies Radio System (STARS) is a multi-channel digital voice Land Mobile Radio (LMR) network owned by the Department of State Police (VSP) with 22 user agencies.
- Request for over \$130 million.
  - \$40.0 million in GF bond proceeds were provided during the 2019 Session as part of a four-year allocation.



Source: US Government Accountability Office (GAO).

# Examples in Other Areas

# Department of Behavioral Health and Developmental Services Capital Outlay Requests

## Projects

Expansion of New Central State Hospital (48 Beds)

Umbrella Project for Repairs at Various Facilities

System-wide Food Service Renovations

VA Center for Behavioral Rehabilitation – Build Out Shell Space

Life Safety and Regulatory Compliance Needs

Planning - Replacement of Northern VA Mental Health Institute

Planning - Eastern State Hospital Phase 4

**About \$150 million in Requests**





# Agriculture, Forestry and Natural Resources Capital Requests

- Natural Resources related Capital Outlay requests total more than \$800 million and are primarily focused on four major policy objectives:
  - Water Quality,
  - Resiliency,
  - Land Conservation, and
  - State Parks operations.



Agency	Project	Total GF/Debt (\$ in millions)
DOF	Stanley State Forest	\$5.1
DCR	Dam Rehabilitation	\$51.5
DCR	State Park Projects	\$222.0
DCR	Land Acquisition	\$69.4
DEQ	Water Quality	\$120.5
DEQ	Shoreline Resiliency	\$100.0
DEQ	Stormwater	\$182.0

# Transportation Capital Outlay Requests

Agency	Project	Total NGF Request (\$ in millions)
VDOT	Renovate Agency Facilities	\$105.6
VDOT	Maintenance Reserve	\$12.0
VPA	Expand Empty Yard	\$45.0
VPA	Cargo Handling Upgrades	\$58.0
VPA	Terminal Operating Equipment	\$63.0

- Transportation related capital outlay requests total \$283.6 million NGF and are focused on facility renovations and operational improvements.

